



**FILED**

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding Policies,  
Procedures and Rules for California Solar  
Initiative, the Self-Generation Incentive Program  
and Other Distributed Generation Issues.

Rulemaking 06-03-004  
(Filed March 2, 2006)

**ADMINISTRATIVE LAW JUDGE'S RULING  
REQUESTING COMMENT ON REFINEMENT OF THE CALIFORNIA  
SOLAR INITIATIVE INCENTIVE MECHANISM**

This ruling acknowledges a discrepancy and potential ambiguity between the California Solar Initiative (CSI) incentive adjustment mechanism adopted by the Commission in Decision (D.) 06-08-028, and modified in D.06-12-033, and the language describing implementation of that mechanism in the CSI program handbook, as approved in an assigned Commissioner's Ruling of December 20, 2006. To resolve this discrepancy, the Commission requests parties provide comment on the incentive mechanism refinement set forth in the CSI Handbook, and as further clarified in this ruling, in order for the Commission to consider modification of its prior orders.

**Background**

In the Commission's first CSI order, D.06-01-024, the Commission established a mechanism for solar incentives to decline over the 10-year duration of the CSI program. In D.06-08-028, the Commission modified the initial incentive adjustment mechanism so that incentives would only adjust based on the volume of megawatts (MWs) of solar installations, as measured in

applications for incentives that had reached the “conditional reservation” stage.<sup>1</sup> The decision adopted several tables detailing the MWs in each step, and the MWs allocated to each utility for each step of the incentive mechanism. (See D.06-08-028, Tables 10, 11 and 13.) Further, the decision specifically directs the CSI program administrators to reduce incentives when conditional reservations for solar incentives reach the MW targets in Table 11. (D.06-08-028, Ordering Paragraph 19.) In a subsequent order, the Commission made minor modifications to all of these tables, including Table 11, to reflect an adjusted MW goal for the Commission portion of CSI to conform to Senate Bill 1. (D.06-12-033.)

In D.06-08-028, the Commission recognized that the CSI program administrators, solar industry, and participating customers would need a program handbook to facilitate program implementation. As directed in the order, Energy Division convened a handbook workshop, forwarded a draft handbook to the Administrative Law Judge, and the CSI program handbook was approved by an assigned Commissioner’s Ruling on December 20, 2006.

### **Incentive Mechanism Refinement**

Energy Division Staff has now informed me that language in Section 3.1 of the CSI handbook, “CSI Program Incentive Trigger Mechanism,” describes a process for handling the MWs associated with projects that drop out of the program. The Handbook states in Section 3.1:

Projects are counted toward the MW trigger once they are deemed eligible, have paid an application fee (if applicable), and have been

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<sup>1</sup> The terminology “conditional reservation” refers to applications that have passed initial screening for eligibility and provided payment of the application fee.

issued a confirmed reservation. As the number of MW allocated through the confirmed reservations reaches its maximum within any particular step, the Program Administrators will move to the next step. **If there are any MW that remain unused in the previous step due to events such as Applicants dropping out of the process, those MW will be added to the next step, increasing the number in that step and ensuring that no MW are left outstanding.** (Emphasis added.)

None of the Commission orders adopting or modifying the incentive adjustment mechanism addressed the issue of how program administrators should handle applications that drop out after incentives are reserved for them. In practical terms, if the program administrators follow the language in Section 3.1 of the Handbook and reallocate MWs associated with dropped out applications by adding them in to the next step, this will change the MW allocations set forth in the Table 11 of D.06-08-028, as modified by D.06-12-033.

For example, Table 11 indicates that Step 1 contains 50 MWs and Step 2 contains 70 MWs. After 50 MWs are conditionally reserved, the incentive adjusts to the Step 2 level for the next 70 MWs of CSI applications. The Handbook language, however, will result in variance from these MW allocations. If program administrators determine that 10 of the 50 MWs reserved for incentives in Step 1 have dropped out, they can increase Step 2 from 70 MWs to 80 MWs. As a result, the incentive adjustments would no longer match the MW targets established in the underlying Commission decisions, although the cumulative total of MWs for Steps 1 and 2 would still be the same. If Step 1 shrinks and Step 2 expands, the two steps together still do not exceed 120 MW. Moreover, as Step 1 MWs drop out and are reallocated and paid at the lower Step 2 incentive level, the Commission still achieves its overall CSI MW goals and spends less ratepayer money than originally envisioned.

Given that this concept of reallocating dropped out applications to lower incentive levels first arose in the CSI Handbook process and made its way into the CSI Handbook, an ambiguity exists between the incentive mechanism described in the tables in the Commission orders and the practical result that will occur as the program administrators implement this concept. It appears there were no objections to this reallocation concept during the Handbook development process. Nevertheless, it is important for the CSI program description and the tables in the Commission orders to match the reality of what the program administrators implement. Further, it is important to ensure that all parties, even those who may not have participated in Handbook development, are aware of this refinement to the incentive adjustment mechanism. Therefore, this ruling requests specific comment on the method for handling drop out applications, as described in Section 3.1 of the Handbook, in order for the Commission to consider modifying its prior orders to adopt this trigger refinement.

In addition, I see the need for a few clarifications to the language in Section 3.1 to conform the proposed trigger refinement to the intent of the adopted trigger mechanism. First, if MWs that counted against a previous step become available due to application drop outs, the program administrators are authorized to reallocate those MWs to the current step under which reservations are being issued. For example, if 10 MWs that were previously reserved in Step 1 drop out and the program administrator is issuing reservations under Step 3, Step 3 should be expanded by 10 MWs. Second, the Commission had specified in D.06-08-028 that one third of MWs should be reserved for residential applicants, and two-thirds for non-residential applicants. Any reallocations of drop outs should conform to this one-third/two-thirds split, although

reallocation of Step 1 drop outs may be at the program administrators' discretion because Step 1 funds were not earmarked for residential and non-residential segments.

Finally, the Commission expressed several times in D.06-08-028 a desire for a transparent and predictable incentive adjustment mechanism, so that program participants could track the MWs applied for and know when incentives might adjust downward. The reallocation of drop outs has the potential to blur transparency and predictability if the MW levels in each step are constantly changing. Therefore, the Handbook language should specify that the program administrators will provide weekly updates to their solar application website to clearly indicate the total MWs available for incentives at each level, including those MWs newly available due to reallocation of drop outs from prior steps.

In summary, parties should comment on whether the Commission's CSI orders and Section 3.1 of the CSI Handbook should be modified to incorporate several new concepts as follows (changes and additions in bold):

Projects are counted toward the MW trigger once they are deemed eligible, have paid an application fee (if applicable), and have been issued a confirmed reservation. As the number of MW allocated through the confirmed reservations reaches its maximum within any particular step, the Program Administrators will move to the next step. If there are any MW that remain unused in a previous step due to events such as Applicants dropping out of the process, those MW will be added to the **current step under which Program Administrators are issuing reservations and incentives**, increasing the number in that step and ensuring that no MW are left outstanding. **Any rearrangement of MWs from a higher step to a lower step can take place as long as reallocations conform to the one-third/two-thirds allocation for residential and non-residential applications. Reallocations from Step 1 may be assigned to either residential or non-residential applicants, at the discretion of the**

**Program Administrators. The Program Administrators will provide weekly updates to their solar application website to indicate the total MWs available for incentives at each step, including those MWs newly available due to applications that have dropped out.**

During the time that parties comment on this incentive mechanism refinement described in this ruling, the program administrators may, on an interim basis and until further Commission action, continue to implement the language in the CSI Handbook as approved in December 2006. Following comments on this trigger refinement, the Commission will issue an order resolving the issue on a going-forward basis, without disrupting any applications conditionally reserved while this handbook language was in effect.

Therefore, **IT IS RULED** that:

1. Parties to this proceeding may comment on the incentive mechanism refinement described in this ruling no later than March 9, 2007.
2. The California Solar Initiative (CSI) program administrators may continue to implement the incentive mechanism as it has been described in the CSI Handbook, until further order of the Commission.

Dated February 27, 2007, at San Francisco, California.

/s/ DOROTHY J. DUDA

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Dorothy J. Duda  
Administrative Law Judge

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Dated February 27, 2007, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid